

**FARR WEST CITY  
FINANCIAL STATEMENTS AND  
SUPPLEMENTARY DATA**

**JUNE 30, 2005**

FARR WEST CITY  
TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1 - 2
Management's Discussion and Analysis	3 - 7
<b>Basic Financial Statements</b>	
Government-wide Financial Statements	
Statement of Net Assets	8
Statement of Activities	9
Governmental Funds Statements	
Balance Sheet	10
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	11
Statement of Revenues, Expenditures, and Changes in Fund Balances	12
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	13
Proprietary Funds Statements	
Statement of Net Assets	14
Statement of Revenues, Expenses, and Changes in Fund Net Assets	15
Statement of Cash Flows	16 - 17
Notes to Financial Statements	18 - 29
<b>Required Supplemental Information</b>	
Schedule of Revenues, Expenditures, and Changes to Fund Balances - Budget and Actual - General Fund	30 - 33
<b>Auditor's Reports</b>	
Independent Auditor's Report on State Legal Compliance	34 - 35
Schedule of Findings and Questioned Costs-State Legal Compliance	36
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	37 - 38
Independent Auditor's Management Letter	39 - 40
Status of Fiscal Year 2004 Findings and Recommendations	41

# ***Davis, Chase & Associates, P.C.***

***Certified Public Accountants***

*Steven J. Davis, CPA, CFP®, PFS*

*Tarina Chase, CPA*

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## **INDEPENDENT AUDITOR'S REPORT**

To the Honorable Mayor and City Council  
Farr West City  
Farr West, UT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Farr West City, Utah as of and for the year ended June 30, 2005, which collectively comprise the City's financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated November 23, 2005, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 7 and budgetary comparison information on pages 30 through 33 are not a required part of the financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Davis, Chase & Associates*

November 23, 2005

FARR WEST CITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2005

## INTRODUCTION

The following is a discussion and analysis of Farr West City's financial performance and activities for the fiscal year ending June 30, 2005.

## HIGHLIGHTS

The newly completed Civic Center now offers a variety of programs for senior citizens. The Center is also used by many citizens for various community and family activities.

The Civic Center Bowery was completed, including a playground area for children. A walking path surrounding the Civic Center Park was finished during the year along with landscaping for the park.

Farr West City completed the construction of a \$1,300,000 Recreation Center. The Recreation Center is providing excellent opportunities for the citizens of Farr West City to enjoy indoor recreation.

The Civic Center Park also includes an outdoor basketball court, tennis court and a volleyball court for summer activities.

The assets of Farr West City exceeded its liabilities at the end of the current fiscal year by \$6,084,463 (net assets). Of this amount, \$1,402,808 (unrestricted net assets) is available to meet ongoing obligations to citizens and creditors.

Net assets increased by \$1,105,387. Of this amount, 33 percent is a result of business-type activities.

The City's Governmental funds reported combined ending fund balance of \$(77,372), a decrease of \$840,464 compared to the prior year's ending amount. Of the combined total fund balance, \$354,945 is available for spending at the discretion of the City (unreserved and undesignated fund balance).

The unreserved and undesignated fund balance of the General Fund at June 30, 2005, totaling \$354,945 is 19 percent of the General Fund total revenues for the year. The General Fund, also has approximately \$375,688 of fund balance reserved for specific purposes that will be carried over into the following fiscal year.

During the year, total bonded debt for Farr West City decreased by \$50,000.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the City's Basic Financial Statements. The Basic Financial Statements includes three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

## Management's Discussion and Analysis

The government-wide financial statements are comprised of the Statement of Net Assets, and the Statement of Activities. These two statements provide a broad overview of the City's finances. The Statement of Net Assets shows the overall net assets of the City. Increases and decreases in net assets are one indicator of the City's overall financial condition. The Statement of Activities helps to identify functions of the City that are principally supported by taxes and other general revenues (governmental activities) along with other functions that are intended to recover all or most of their costs through user fees and charges (business-type activities). Farr West's business type activity is sewer.

The fund financial statements provide detailed information about individual major funds and not the City as a whole. A fund is a group of related accounts that the City uses to keep track of specific resources that are segregated for a specific purpose. Some funds are required by law to exist, while others are established internally to maintain control over a particular activity. All of the City's funds are divided into two types. The two types are Governmental Funds and Proprietary Funds.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

Farr West City has two Governmental Funds. The General Fund is the chief operating fund of the City. All of the City's activities are reported in the General Fund unless there is a compelling reason to report an activity in some other fund type. The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Farr West City has one Proprietary Fund. The Enterprise Fund may be used to report any activity for which a fee is charged to external users for goods or services. The Enterprise Fund is used to report the same functions presented as business-type activities in the government-wide financial statements. Farr West City has one Enterprise Fund to monitor the sewer system.

There are several differences between Government-Wide and Fund Statements. Capital assets and long-term debt are included on the government-wide statements, but are not reported on the governmental fund statements. Capital outlays result in capital assets on the government-wide statements, but are expenditures on the governmental fund statements. Certain tax revenues that are earned but not yet available are reported as revenue on the government-wide statements, but are deferred revenue on the governmental fund statements.

## Management's Discussion and Analysis

### FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

#### Net Assets

	Government Activities		Business-type Activities		Total	
	June 30 2005	June 30 2004	June 30 2005	June 30 2004	June 30 2005	June 30 2004
Current and other assets	\$1,117,719	\$ 911,155	\$1,751,269	\$1,430,868	\$2,868,988	\$2,342,023
Capital assets	3,929,853	2,338,180	954,820	968,935	4,884,673	3,307,115
Total assets	<u>5,047,572</u>	<u>3,249,335</u>	<u>2,706,089</u>	<u>2,399,803</u>	<u>7,753,661</u>	<u>5,649,138</u>
Long-term liabilities						
outstanding	-	-	420,000	472,000	420,000	472,000
Other liabilities	1,197,198	148,062	52,000	50,000	1,249,198	198,062
Total liabilities	<u>1,197,198</u>	<u>148,062</u>	<u>472,000</u>	<u>522,000</u>	<u>1,669,198</u>	<u>670,062</u>
Net assets:						
Invested in capital assets, net of related debt	3,929,853	2,338,180	482,820	446,935	4,412,673	2,785,115
Restricted	(432,317)	437,316	701,299	536,392	268,982	973,708
Unrestricted	352,838	325,777	1,049,970	894,476	1,402,808	1,220,253
Total net assets	<u>\$3,850,374</u>	<u>\$3,101,273</u>	<u>\$2,234,089</u>	<u>\$1,877,803</u>	<u>\$6,084,463</u>	<u>\$4,979,076</u>

The largest component of the City's net assets, 72.5%, reflects investments in capital assets (land, buildings, equipment, and sewer infrastructure) less all outstanding debt that was issued to buy or build those assets. As capital assets, these resources are not available for future spending, nor can they all be readily liquidated to pay off the related liabilities.

Restricted net assets comprise 4.4% of total net assets and are subject to external restrictions on how they may be used. The remaining 23.1% of net assets is unrestricted and may be used at the City's discretion to meet its ongoing obligations to citizens and creditors.

## Management's Discussion and Analysis

### Governmental Activities and Business Type Activities

#### Changes in Net Assets

	Government Activities		Business-type Activities		Total	
	June 30 2005	June 30 2004	June 30 2005	June 30 2004	June 30 2005	June 30 2004
Revenues:						
Program revenues:						
Charges for services	\$ 941,366	\$ 756,239	\$ 252,478	\$ 228,296	\$1,193,844	\$ 984,535
Operating grants and contributions	125,442	151,263	217,825	264,000	343,267	415,263
Capital grants and contributions	201,360	-	-	-	201,360	-
General revenues:						
Property taxes	50,997	49,200	-	-	50,997	49,200
Other taxes	580,472	498,484	-	-	580,472	498,484
Grants and contributions not restricted to specific programs						
Other	20,720	17,241	40,318	17,461	61,038	34,702
Total revenues	<u>1,920,357</u>	<u>1,472,427</u>	<u>510,621</u>	<u>509,757</u>	<u>2,430,978</u>	<u>1,982,184</u>
Expenses:						
General government	506,351	506,613	-	-	506,351	506,613
Public safety	237,343	187,161	-	-	237,343	187,161
Highways and public improvements	245,067	119,642	-	-	245,067	119,642
Sanitation	133,573	118,130	-	-	133,573	118,130
Parks and recreation	48,922	36,515	-	-	48,922	36,515
Sewer	-	-	154,335	163,651	154,335	163,651
Total expenses	<u>1,171,256</u>	<u>968,061</u>	<u>154,335</u>	<u>163,651</u>	<u>1,325,591</u>	<u>1,131,712</u>
Increase in net assets	749,101	504,366	356,286	346,106	1,105,387	850,472
Net assets-beginning	<u>3,101,273</u>	<u>2,596,907</u>	<u>1,877,803</u>	<u>1,531,697</u>	<u>4,979,076</u>	<u>4,128,604</u>
Net assets-ending	<u>\$3,850,374</u>	<u>\$3,101,273</u>	<u>\$2,234,089</u>	<u>\$1,877,803</u>	<u>\$6,084,463</u>	<u>\$4,979,076</u>

#### Governmental Activities

The activities in the governmental funds resulted in an increase in net assets of \$749,101 for the year.

#### Business-Type Activities

The business-type activities increased net assets by \$356,286. The sewer enterprise fund is generating sufficient revenue to cover operating costs.



## Management's Discussion and Analysis

### FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

#### Capital Assets

Farr West City added \$1,701,628 in new capital assets in governmental activities during the fiscal year. The following major assets were acquired or constructed: Land \$199,940; Recreation Center \$1,324,362; Civic Center and park improvements \$135,059; and equipment \$42,267.

#### Fund Balances

The fund balance in the General Fund was increased by \$129,762. In addition, \$383,530 was transferred to the Capital Projects Fund for use on the Recreation Center. The fund balance in the Sewer Enterprise Fund was increased by \$356,285.

During the fiscal year, the fund balance in the Capital Projects Fund decreased \$970,226. Expenditures during the year were used for the Recreation Center and other improvements to the Civic Center and park. A total of \$1,355,421 was spent on the projects during the fiscal year.

#### Long-Term Debt

The City currently owes \$472,000 for Revenue Bonds. The proceeds from the bonds were used to finance the City's sewer infrastructure. \$52,000 of the debt will be paid in the current year with \$420,000 remaining in long-term debt.

#### General Fund Budgets

Farr West City prepares its budget according to state statutes. The General Fund was adjusted during the year to meet the needs of growth in the City.

Actual General Fund revenues were \$534,391 above the original budget and \$75,772 below the final adjusted budget. Actual General Fund expenses before transfers were \$236,099 above the original budget and \$170,601 below the final adjusted budget.

#### ADDITIONAL INFORMATION

Residential building should continue to provide revenue to the City for several years. With the rapid growth in Farr West a time will come when this revenue source will drop off considerably. The City has good opportunities for commercial growth.

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of Farr West City's finances and to demonstrate the City's accountability for the money it receives. Questions concerning any of the information provided in this report or any other matters related to the City's finances should be addressed to Farr West City Recorder, 2090 North 2000 West, Farr West, Utah 84404.

John E. Cardon  
Treasurer

FARR WEST CITY  
STATEMENT OF NET ASSETS  
JUNE 30, 2005

	Primary Government		
	Governmental	Business-type	Total
	Activities	Activities	
<b>ASSETS</b>			
Cash and cash equivalents	\$ 333,471	\$ 8,687	\$ 342,158
Restricted cash	552,683	701,299	1,253,982
Accounts receivable	29,948	56,283	86,231
Due from other governmental units	182,622	-	182,622
Deposits and prepaid expenses	18,995	-	18,995
Due from other funds	-	985,000	985,000
Capital assets (net of accumulated depreciation):			
Land	440,359	-	440,359
Buildings	2,682,684	-	2,682,684
Improvements	607,961	942,790	1,550,751
Machinery and equipment	198,849	12,030	210,879
TOTAL ASSETS	<u>5,047,572</u>	<u>2,706,089</u>	<u>7,753,661</u>
<b>LIABILITIES</b>			
Accounts payable	100,069	-	100,069
Accrued liabilities	58,918	-	58,918
Deferred revenue	51,104	-	51,104
Due to other funds	985,000	-	985,000
Non-current liabilities:			
Bonds payable - Due within one year	-	52,000	52,000
Bonds payable - Due in more than one year	2,107	420,000	422,107
TOTAL LIABILITIES	<u>1,197,198</u>	<u>472,000</u>	<u>1,669,198</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	3,929,853	482,820	4,412,673
Restricted for:			
Capital projects	(808,005)	-	(808,005)
Storm sewer	375,688	-	375,688
Sewer expansion	-	564,849	564,849
Bond reserves	-	136,450	136,450
Unrestricted	352,838	1,049,970	1,402,808
TOTAL NET ASSETS	<u>\$ 3,850,374</u>	<u>\$ 2,234,089</u>	<u>\$ 6,084,463</u>

The accompanying notes are an integral part of these statements.

FARR WEST CITY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2005

FUNCTIONS/PROGRAMS PRIMARY GOVERNMENT:	Net (Expense) Revenue and Changes in Net Assets				
	Program Revenues		Primary Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
General government	\$ 506,351	\$ 596,641	\$ -	\$ 201,360	\$ 291,650 \$ - \$ 291,650
Public safety	237,343	105,854	4,630	-	(126,859) - (126,859)
Highways and public improvements	245,067	-	120,812	-	(124,255) - (124,255)
Sanitation	133,573	156,691	-	-	23,118 - 23,118
Parks and recreation	48,922	82,180	-	-	33,258 - 33,258
Total governmental activities	1,171,256	941,366	125,442	201,360	96,912 - 96,912
Business-type activities:					
Sewer	154,335	252,478	217,825	-	- 315,968 315,968
Total business-type activities	154,335	252,478	217,825	-	- 315,968 315,968
Total primary government	\$ 1,325,591	\$ 1,193,844	\$ 343,267	\$ 201,360	96,912 315,968 412,880
General revenues:					
Property taxes					50,997 - 50,997
Sales taxes					564,590 - 564,590
Franchise taxes					7,059 - 7,059
Fees-in-lieu of taxes					8,823 - 8,823
Miscellaneous					20,720 40,318 61,038
Total general revenues and transfers					652,189 40,318 692,507
Change in net assets					749,101 356,286 1,105,387
Net assets - beginning					3,101,273 1,877,803 4,979,076
Net assets - ending					\$ 3,850,374 \$ 2,234,089 \$ 6,084,463

The accompanying notes are an integral part of these statements.

FARR WEST CITY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2005

	<u>General Fund</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash & cash equivalents	\$ 333,471	\$ -	\$ 333,471
Restricted cash	375,688	176,995	552,683
Accounts receivable	29,948	-	29,948
Due from other governmental units	182,622	-	182,622
Deposits & prepaid expenses	18,994	-	18,994
Total assets	<u>\$ 940,723</u>	<u>\$ 176,995</u>	<u>\$1,117,718</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 100,069	\$ -	\$ 100,069
Accrued liabilities	58,917	-	58,917
Deferred revenues	51,104	-	51,104
Due to other funds	-	985,000	985,000
Total liabilities	<u>210,090</u>	<u>985,000</u>	<u>1,195,090</u>
Fund balances:			
Reserved for:			
Storm sewer	375,688	-	375,688
Capital projects	-	(808,005)	(808,005)
Unreserved, reported in:			
General fund	<u>354,945</u>	<u>-</u>	<u>354,945</u>
Total fund balances	<u>730,633</u>	<u>(808,005)</u>	<u>(77,372)</u>
Total liabilities and fund balances	<u>\$ 940,723</u>	<u>\$ 176,995</u>	<u>\$1,117,718</u>

The accompanying notes are an integral part of these statements.

FARR WEST CITY  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2005

Total fund balances - governmental funds: \$ (77,372)

Amounts reported for governmental activities in the Statement of  
Net Assets are different because:

Capital assets used in governmental activities are not  
financial resources and, therefore, are not reported  
in the funds.

Land	\$ 440,359	
Buildings	2,796,516	
Improvements	672,372	
Machinery and equipment	457,871	
Accumulated depreciation	<u>(437,265)</u>	
		3,929,853

Long-term liabilities, including compensated absences are not  
due and payable in the current period and therefore are not  
reported in the governmental funds, but they are reported  
in the Statement of Net Assets

Compensated absences	<u>(2,107)</u>
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Net assets of governmental activities	<u>\$ 3,850,374</u>
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The accompanying notes are an integral part of these statements.

FARR WEST CITY  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2005

	<u>General Fund</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Taxes:			
Sales taxes	\$ 564,590	\$ -	\$ 564,590
Property taxes	50,997	-	50,997
Franchise taxes	7,059	-	7,059
Fees-in-lieu of taxes	8,823	-	8,823
Licenses and permits	337,955	-	337,955
Intergovernmental	125,442	-	125,442
Charges for services	189,784	-	189,784
Fines and forfeitures	105,854	-	105,854
Miscellaneous revenue	528,187	1,665	529,852
Total revenues	<u>1,918,691</u>	<u>1,665</u>	<u>1,920,356</u>
<b>EXPENDITURES</b>			
Current:			
General government	783,978	-	783,978
Public safety	237,022	-	237,022
Highways and public improvements	224,187	-	224,187
Sanitation	133,573	-	133,573
Parks and recreation	26,639	-	26,639
Capital outlay	-	1,346,891	1,346,891
Interest	-	8,530	8,530
Total expenditures	<u>1,405,399</u>	<u>1,355,421</u>	<u>2,760,820</u>
Excess (deficiency) of revenues over expenditures	<u>513,292</u>	<u>(1,353,756)</u>	<u>(840,464)</u>
<b>Other financing sources (uses)</b>			
Transfers in	-	383,530	383,530
Transfers out	(383,530)	-	(383,530)
Total other financing sources and uses	<u>(383,530)</u>	<u>383,530</u>	<u>-</u>
Net change in fund balances	129,762	(970,226)	(840,464)
Fund balances - beginning of year	<u>600,871</u>	<u>162,221</u>	<u>763,092</u>
Fund balances - end of year	<u>\$ 730,633</u>	<u>\$ (808,005)</u>	<u>\$ (77,372)</u>

The accompanying notes are an integral part of these statements.

FARR WEST CITY  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
 STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2005

Amounts reported for governmental activities in the Statement of  
 Activities are different because:

Net changes in fund balances - total governmental funds	\$ (840,464)
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Governmental funds report capital outlays as expenditures.  
 However, in the Statement of Activities the cost of those  
 assets is allocated over their estimated useful lives and  
 reported as depreciation expense. This is the amount by  
 which capital outlays exceeded depreciation in the current  
 period.

Land	\$ 199,940	
Buildings	1,342,213	
Improvements	117,208	
Machinery and equipment	28,046	
Depreciation expense	<u>(95,735)</u>	
		1,591,672

Some expenses reported in the statement of activities do not  
 require the use of current financial resources and, therefore  
 are not reported as expenditures.

Compensated absences	<u>(2,107)</u>
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Change in net assets of governmental activities	<u><u>\$ 749,101</u></u>
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The accompanying notes are an integral part of these statements.

FARR WEST CITY  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2005

	<u>Sewer Fund</u>
<b><u>ASSETS</u></b>	
Current assets:	
Cash	\$ 8,687
Accounts receivable	<u>56,283</u>
Total current assets	<u>64,970</u>
Noncurrent assets:	
Restricted cash	701,299
Fixed assets	1,320,671
Less: Accumulated depreciation	(365,851)
Due from other funds	<u>985,000</u>
Total noncurrent assets	<u>2,641,119</u>
Total assets	<u>2,706,089</u>
<b><u>LIABILITIES</u></b>	
Current liabilities:	
Bonds payable	<u>52,000</u>
Total current liabilities	<u>52,000</u>
Noncurrent liabilities:	
Bonds payable	<u>420,000</u>
Total noncurrent liabilities	<u>420,000</u>
Total liabilities	<u>472,000</u>
<b><u>NET ASSETS</u></b>	
Invested in capital assets, net of related debt	482,820
Restricted - Bond reserves	136,450
Restricted - Sewer expansion	564,849
Unrestricted	<u>1,049,970</u>
Total net assets	<u>\$ 2,234,089</u>

The accompanying notes are an integral part of these statements.



FARR WEST CITY  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Sewer Fund</u>
Operating revenues:	
Charges for services	\$ 252,478
Impact fees	<u>217,825</u>
Total operating revenues	<u>470,303</u>
Operating expenses:	
Contractual service	71,792
Administrative	24,000
Maintenance	5,285
Depreciation	<u>27,483</u>
Total operating expenses	<u>128,560</u>
Operating income	<u>341,743</u>
Nonoperating revenues (expenses):	
Interest revenue	40,318
Interest expense	<u>(25,775)</u>
Total nonoperating revenues (expenses)	<u>14,543</u>
Change in net assets	356,286
Total net assets - beginning	<u>1,877,803</u>
Total net assets - ending	<u><u>\$ 2,234,089</u></u>

The accompanying notes are an integral part of these statements.

FARR WEST CITY  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Sewer Fund</u>
<b>Cash Flows From Operating Activities</b>	
Receipts from customers	\$ 242,815
Payments to suppliers	(77,077)
Payments for interfund services used	(24,000)
Receipts for impact fees	<u>217,825</u>
Net cash provided (used) by operating activities	<u>359,563</u>
<b>Cash Flows From Noncapital Financing Activities</b>	
Interfund loan to other funds	<u>(985,000)</u>
Net cash provided (used) by noncapital financing activities	<u>(985,000)</u>
<b>Cash Flows From Capital and Related Financing Activities</b>	
Purchases of capital assets	(13,367)
Principal paid on capital debt	(50,000)
Interest paid on capital debt	<u>(25,775)</u>
Net cash provided (used) by capital and related financing activities	<u>(89,142)</u>
<b>Cash Flows From Investing Activities</b>	
Interest and dividends received	<u>40,317</u>
Net cash provided (used) by investing activities	<u>40,317</u>
Net increase (decrease) in cash and cash equivalents	(674,262)
Cash and cash equivalents, July 1	<u>1,384,248</u>
Cash and cash equivalents, June 30	<u><u>\$ 709,986</u></u>

The accompanying notes are an integral part of these statements.

FARR WEST CITY  
STATEMENT OF CASH FLOWS (CONTINUED)  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Sewer Fund</u>
<b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>	
Operating income	<u>\$ 341,743</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	27,483
(Increase) decrease in accounts receivable	<u>(9,663)</u>
Total adjustments	<u>17,820</u>
Net cash provided (used) by operating activities	<u><u>\$ 359,563</u></u>

The accompanying notes are an integral part of these statements.

FARR WEST CITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Farr West City, Utah conform in all material respects to generally accepted accounting principles (GAAP) as applicable to governments. The City has adopted the provisions of the Governmental Accounting Standards Board (GASB). Preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements.

The following is a summary of the more significant policies and is presented to assist the reader in interpreting the financial statements and other data in this report. These policies, as presented, should be viewed as an integral part of the accompanying financial statements.

**A. Reporting Entity**

Farr West City was incorporated November 10, 1980, in the State of Utah. The City operates under a Council/Mayor form of government and provides the following services as authorized by its charter: Public safety (police and fire), public utilities (sewer), sanitation, highways and streets, social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

The criteria set forth by generally accepted accounting principles (GAAP) was used to determine which entities to include in this report. GASB Concepts Statement-1 (Objectives of Financial Reporting) concludes that the basic foundation for governmental financial reporting is accountability. The Concepts Statement asserts that accountability requires governments to answer to the citizenry - to justify the raising of public resources and the purposes for which they are used. In turn, the concept of accountability becomes the basis for defining the financial reporting entity. Under GASB-14 (The Financial Reporting Entity) the financial reporting entity consists of the following:

1. The primary government
2. Organizations for which the primary government is financially accountable
3. Other organizations that, because of the nature and significance of their relationship with the primary government, exclusion from the reporting entity would render the financial statements misleading or incomplete.

Blended component units, although legally separate entities, are in substance part of the government's operations. They are reported as part of the primary government and blended with the appropriate funds. The City has no component units.

**B. Government-wide and Fund Financial Statements**

The City's basic financial statements consist of both government-wide statements and fund statements. The government-wide statements focus on the City as a whole, while the fund statements focus on individual funds.

FARR WEST CITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Government-wide Financial Statements***

The government-wide statements present information on all non-fiduciary activities of the primary government. Primary government activities are distinguished between *governmental* and *business-type* activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The *Statement of Net Assets* presents the City's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are restricted when constraints placed upon them are either externally imposed or are imposed by constitutional provisions or enabling legislation. The *Statement of Activities* demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. The City does not allocate general government (indirect) expenses to other functions. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other revenues not meeting the definition of program revenues are reported as general revenues.

***Fund Financial Statements***

The financial transactions of the City are recorded in individual funds. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is used to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. Statements are provided for *governmental funds* and for *proprietary funds*. For governmental and proprietary funds, the emphasis is on *major funds*, with each displayed in a separate column.

The City reports the following major governmental funds:

**General Fund -** This fund is the principal operating fund of the City. It is used to account for all financial resources not required to be accounted for in another fund.

**Capital Projects Fund -** This fund accounts for financial resources to be used for the construction of major capital projects.

The City reports the following major proprietary fund:

**Sewer Fund -** The sewer fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

FARR WEST CITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2005

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Measurement Focus and Basis of Accounting**

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the related liability is incurred, regardless of the timing of the cash flows. Taxes and fees are recognized in the year in which the related sales or other activity has occurred. Grants and similar items are recognized as revenue when all eligibility requirements have been met.

The governmental fund financial statements are prepared and reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Expenditures are generally recorded when the related liability is incurred.

Proprietary funds separate operating and non-operating revenues and expenses. Operating revenues and expenses normally arise from providing goods and services in connection with the fund's normal ongoing operations. The principal sources of operating revenues for the proprietary funds are charges to customers for goods and services. Operating expenses include the cost of sales and services, administrative overhead expenses and depreciation on capital assets. All other revenues or expenses are recorded as non-operating.

The City has adopted GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*. Accordingly, the City has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) Opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Consequently, the City does not apply FASB pronouncements issued after November 30, 1989.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments to the General Fund by various enterprise funds for providing administrative and billing services for such funds. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

**D. Assets, Liabilities, and Fund Balances/Net Assets**

The following are the City's significant policies regarding recognition and reporting of certain assets, liabilities, and equity.

***Pooled Cash and Temporary Investments***

Unrestricted and restricted cash balances of both funds are combined to form a pool of cash which is managed by the City Treasurer. Utah State Statutes allow for investments in the Utah Public Treasurer's Investment Fund and Utah Money Management Act (UMMA) approved financial institutions. The UMMA provides for a committee to evaluate financial institutions and provide a list of those qualified as depositories for public funds, including the amount they are authorized to maintain over and above insured amounts. The City Treasurer invests unrestricted and restricted cash with the Utah Public Treasurer's Investment Fund and with local financial institutions. Investments in the pooled cash fund consist primarily of certificates of deposit, repurchase agreements, and time deposits and are carried at cost which approximates market value. Interest income earned as a result of pooling is distributed to the appropriate funds based on month end balances of cash. The City considers all highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.

FARR WEST CITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2005

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Assets, Liabilities, and Fund Balances/Net Assets (Continued)**

***Inventories***

No significant inventories are maintained by the City, therefore none are reflected in these statements.

***Restricted Assets***

Certain resources set aside as reserves in accordance with council resolutions and State statutes are classified as restricted assets on the balance sheet because their use is limited.

***Capital Assets***

General capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds. Capital assets are reported in the governmental column in the government-wide financial statements. All purchased fixed assets are valued at cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. Capital assets are defined as assets with an initial, individual cost of more than \$5,000.

Infrastructure capital assets which are newly constructed are capitalized.

Capital assets are depreciated. Depreciation of buildings, improvements, infrastructure, and equipment is computed using the straight-line method.

Depreciation of all exhaustible capital assets is charged as an expense in the related program. Accumulated depreciation is reported on the Statement of Net Assets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings	30-50 years
Improvements	10-50 years
Equipment	5-10 years
Infrastructure	25-40 years

***Long-term Obligations***

In the government-wide statements, long-term debt obligations are reported as liabilities.

The face amount of debt issued is reported as other financing sources in the governmental fund financial statements.

***Net Assets/Fund Balances***

The difference between assets and liabilities is *net assets* on the government-wide statements, and *fund balance* on the governmental fund statements.

In the governmental fund statements, fund balances are classified as reserved or unreserved. Reserves represent those portions of fund balance that are not available for expenditures or are legally segregated for a specific future use. Unreserved fund balances are available for future appropriation, though some portions may be designated to represent management's tentative plans for specific future uses.

FARR WEST CITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2005

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**E. Revenues and Expenditures**

The following are the City's significant policies related to recognition and reporting of certain revenues, expenditures, and interfund activity.

***Revenue Availability***

Under the modified accrual basis of accounting, revenues are considered to be "available" when they are collected within the current period or expected to be collected soon enough thereafter to pay liabilities of the current period. The City considers property tax revenues to be available if they are collected within 60 days after the end of the current year. Grants and similar items are recognized as revenue when all eligibility requirements have been met. All other revenues, including sales taxes, are considered to be available if they are collected within 60 days after year-end.

Statement of Governmental Accounting Standards (SGAS) No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*, defines a non-exchange transaction as one in which "a government either gives value to another party without directly receiving equal value in exchange or receives value from another party without directly giving equal value in exchange." For property taxes, at January 1 of each year (the assessment date), the City has the legal right to collect the taxes, and in accordance with the provisions of the new statement, has now recorded a receivable and a corresponding deferred revenue for the assessed amount of those property taxes as of January 1, 2005.

***Expenditure Recognition***

In governmental funds, expenditures are generally recorded when the related liability is incurred. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due. Capital asset acquisitions are reported as expenditures, and proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

When an expenditure is incurred for purposes for which both restricted and unrestricted resources are available, the City generally uses restricted resources first, then unrestricted resources.

**F. Budgets and Budgetary Accounting**

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for both funds. All annual appropriations lapse at the fiscal year end. Project-length financial plans are adopted for capital projects funds. Encumbrance accounting is not used by the City.

**Summary of City Budget Procedures and Calendar**

1. The City Council can amend the budget to any extent, provided the budgeted expenditures do not exceed budgeted revenues and appropriated fund balance.
2. Budgets are required by the State of Utah for both the General and Capital Project Funds.



FARR WEST CITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2005

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**F. Budgets and Budgetary Accounting (Continued)**

**Summary of City Budget Procedures and Calendar (Continued)**

3. Each year the City publishes a separate budget document prepared according to this legal level of control.
4. The City's budget is a Financial Plan of all estimated revenues and all appropriations for expenditures. Revenues and Expenditures must balance for the funds required by the State Code as indicated in item 2 above.
5. A tentative budget is presented by the Mayor to the City Council by the first regularly scheduled council meeting in May. The tentative budget is reviewed and tentatively adopted by the Council no later than June 22.
6. The tentative budget is a public record and is available for inspection at the City offices for at least ten days prior to adoption of the final budget.
7. Notice of public hearing on adoption of the final budget is published seven days prior to the public hearing.
8. The public hearing on the tentatively adopted budget is held no later than June 22. Final adjustments are made to the tentative budget by the Council after the public hearing.
9. Occasionally the City Council will exercise their option to open the budget to indicate additional financing sources that become available.
10. The final budget is adopted by ordinance before June 22 and a copy of the budget certified by the Budget Officer is filed with the State Auditor within thirty days of adoption.
11. In connection with budget adoption:
  - a. An annual tax ordinance establishing the property tax rate is adopted before June 22.
  - b. The City Treasurer is to certify the property tax rate to the County Auditor before June 22.
12. Budgets for the General and Capital Projects Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).

**Summary of Action Required for Budget Changes:**

The Council may, by resolution, transfer unexpended appropriations from one department to another department within the same fund. The budget appropriation for any department may be reduced by resolution. Fund budgets may be increased by resolution after a public hearing.

**Current Year Excess of Expenditures Over Appropriations:**

For the year ended June 30, 2005, expenditures did not exceed appropriations in either fund.

**G. Contributions**

Certain proprietary fund types receive contribution for aid in construction from various sources. With the adoption of GASB No. 33, these contributions that were formerly credited directly to contributed capital accounts are now reflected as non-operating revenue.

FARR WEST CITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2005

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**H. Compensated Absences**

City policy provides for vested or accumulated vacation leave.

**I. Use of Estimates**

The preparation of the accompanying financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**J. Restrictive Resources**

The City's policy is to use restricted resources first to fund appropriations when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**NOTE 2 - DEPOSITS AND INVESTMENTS**

**A. Deposits**

The City's deposits are carried at cost.

At June 30, 2005, the carrying amount of the City's deposits was \$561,352 and the bank balance was \$627,991. Of the bank balance, \$100,000 was covered by federal depository insurance. The remaining \$527,991 balance was uninsured and uncollateralized.

**B. Investments**

At year-end investments consist of funds in the Utah State Treasurers Investment Fund. This investment is administered by the State of Utah and is regulated by the Money Management Council under provisions of the Utah State Money Management Act. The investment is not categorized as to credit risk because it does not represent a security that exists in physical or book entry form. Investments are carried at cost which approximates their fair value.

Investments not subject to categorizations:

	Carrying Amount	Market Value
Utah Public Treasurer's Investment Fund	\$ 1,034,788	\$ 1,034,947

**C. Summary**

	Carrying Amount
Petty cash and returned checks	\$ 150
Deposits	561,202
Investment in Utah Public Treasurer's Investment Fund	1,034,788
Total deposits and investments	\$ 1,596,140
Equity in pooled cash and investments	\$ 342,158
Restricted cash - sewer fund	701,299
Restricted cash - capital projects	176,995
Restricted cash - general fund	375,688
Total deposits and investments	\$ 1,596,140

FARR WEST CITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2005

**NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)**

*Interest rate risk.* The City manages its exposure to declines in fair value by only investing in the Utah Public Treasurers Investment Fund.

*Credit risk.* As of June 30, 2005, the Utah Public Treasurer's Investment Fund was unrated.

*Concentration of credit risk.* The City's investment in the Utah Public Treasurer's Investment Fund has no concentration of credit risk.

*Custodial credit risk - deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2005, \$527,991 of the \$627,991 balance of deposits was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial credit risk - investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments that are in the possession of an outside party. The City's investment in the Utah Public Treasurer's Investment Fund has no custodial credit risk.

**NOTE 3 - CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2005, was as follows:

	Balance June 30, 2004	Additions	(Deletions)	Balance June 30, 2005
<b><u>PRIMARY GOVERNMENT</u></b>				
<b>GOVERNMENTAL ACTIVITIES</b>				
Nondepreciated Assets				
Construction in progress	\$ 14,220	\$ -	\$ (14,220)	\$ -
Land	240,419	199,940	-	440,359
Total nondepreciated assets	254,639	199,940	(14,220)	440,359
Depreciated Assets				
Improvements-nonbuilding	555,164	117,208	-	672,372
Machinery and equipment	210,257	42,267	-	252,524
Buildings	1,454,303	1,342,213	-	2,796,516
Autos	205,347	-	-	205,347
Total depreciated assets	2,425,071	1,501,688	-	3,926,759
Less accumulated depreciation				
Buildings	(82,196)	(31,636)	-	(113,832)
Machinery and equipment	(213,136)	(45,886)	-	(259,022)
Improvements	(46,198)	(18,213)	-	(64,411)
Total	(341,530)	(95,735)	-	(437,265)
Net assets depreciated	2,083,541	1,405,953	-	3,489,494
Governmental activities capital assets, net	<u>\$ 2,338,180</u>	<u>\$ 1,605,893</u>	<u>\$ (14,220)</u>	<u>\$ 3,929,853</u>

FARR WEST CITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005

**NOTE 3 - CAPITAL ASSETS (CONTINUED)**

	Balance June 30, 2004	Additions	(Deletions)	Balance June 30, 2005
<b>BUSINESS-TYPE ACTIVITIES</b>				
Depreciated Assets				
Sewer system	\$ 1,307,304	\$ -	\$ -	\$ 1,307,304
Machinery and equipment	-	13,367	-	13,367
Total depreciated assets	1,307,304	13,367	-	1,320,671
Less accumulated depreciation				
Sewer system	(338,369)	(26,146)	-	(364,515)
Machinery and equipment	-	(1,337)	-	(1,337)
Total	(338,369)	(27,483)	-	(365,852)
Business-type activities capital assets, net	<u>\$ 968,935</u>	<u>\$ (14,116)</u>	<u>\$ -</u>	<u>\$ 954,819</u>

**DEPRECIATION EXPENSE**

	Governmental Types	Business Types	Totals
General government	\$ 45,048	\$ -	\$ 45,048
Highways and public improvements	28,084	-	28,084
Parks	22,282	-	22,282
Public safety	321	-	321
Sewer	-	27,483	27,483
TOTAL	<u>\$ 95,735</u>	<u>\$ 27,483</u>	<u>\$ 123,218</u>

**NOTE 4 - REVENUE BOND RESERVES**

The required bond reserve account balances at June 30, 2005, were as follows:

1992 Sewer revenue bond	
Bond redemption account	\$ 34,150
Bond reserve fund	68,200
Repair and replacement	34,100
	<u>\$ 136,450</u>

The 1992 Sewer Revenue Bond ordinance requires monthly amounts to be set aside as follows:

**Sewer Revenue Bond Redemption Account**

Beginning in May 1992 and continuing each month, the City is required to reserve one-twelfth (1/12) of the annual principal and interest payment due on the sewer revenue bond. The reserve is then used to make the annual payment.

**Sewer Revenue Bond Reserve Account**

Beginning in May 1992 and continuing each month, the City is required to reserve \$947 until such time as the aggregate reserve shall equal \$68,200. The reserve shall be used to fund the sewer revenue bond redemption fund in the event it is in a deficit position.

FARR WEST CITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2005

**NOTE 4 - REVENUE BOND RESERVES (CONTINUED)**

Emergency Repair and Replacement Account

Beginning in May 1992 and continuing each month, the City is required to reserve \$474 until such time as the aggregate reserve equals \$34,100. The reserve shall be used to make such emergency repairs of, or replacements to the system to insure its continued operation.

**NOTE 5 - RESERVATIONS OF FUND BALANCE/RETAINED EARNINGS**

Reserved for Storm Sewer - This represents storm sewer fees collected and restricted for storm sewer improvements.

Reserved for Capital Projects - The City is setting aside funds in a reserve for major capital improvements.

Reserved for Revenue Bond Accounts - This represents required reserve accounts set up under revenue bond ordinances.

Reserved for Sewer Expansion - This represents sewer impact fees collected and restricted for sewer capital improvements.

**NOTE 6 - LONG-TERM DEBT**

Long-term debt in the enterprise funds as of June 30, 2005, is comprised of the following:

Description	Interest Rate	Outstanding 6/30/2004	Additions	Payments	Outstanding 6/30/2005	Current Portion
Sewer utility fund:						
1970 \$90,000 sewer revenue bond	4.5%	\$ 26,000	\$ -	\$ (4,000)	\$ 22,000	\$ 4,000
1970 \$50,000 G.O. sewer bond	4.5%	12,000	-	(2,000)	10,000	2,000
1992 \$850,000 sewer revenue bond	5.0%	484,000	-	(44,000)	440,000	46,000
		<u>\$ 522,000</u>	<u>\$ -</u>	<u>\$ (50,000)</u>	<u>\$ 472,000</u>	<u>\$ 52,000</u>

Annual requirements to amortize long-term debt as of June 30, 2005:

Sewer utility fund:

June 30,	Principal	Interest	Total
2006	52,000	23,440	75,440
2007	54,000	20,870	74,870
2008	57,000	18,200	75,200
2009	60,000	15,380	75,380
2010	63,000	12,415	75,415
Thereafter	186,000	18,600	204,600
	<u>\$ 472,000</u>	<u>\$ 108,905</u>	<u>\$ 580,905</u>

FARR WEST CITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2005

**NOTE 7 - COMPENSATED ABSENCES**

Balance outstanding - July 1, 2004	\$ -
Additions (deletions)	<u>2,107</u>
Balance outstanding - June 30, 2005	<u>\$ 2,107</u>

**NOTE 8 - RISK MANAGEMENT**

Farr West City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance and participate in a public entity risk pool – the Utah Government Trust. The City maintains comprehensive insurance coverage in aggregate amounts sufficient to protect against all reasonably foreseeable liability risks. Specific liability policies purchased include automobile, general liability, property bond (employee dishonesty), treasurer, public officials and officers, excess liability, and workman's compensation. As of June 30, 2005, there is no anticipation of unpaid claims. Therefore, a liability is not accrued. Settlement amounts have not exceeded coverage for the current year or the three prior years.

**NOTE 9 - PENSION PLANS AND RETIREMENT BENEFITS**

**Local Governmental - Cost Sharing**

**Plan Description.** Farr West City contributes to the Local Governmental Noncontributory Retirement System, which is a cost-sharing multiple-employer defined benefit pension plan administered by the Utah Retirement Systems. Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes general-purpose financial statements and required supplementary information for the Local Governmental Noncontributory Retirement System. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South Salt Lake City, UT 84102 or by calling 1-800-365-8772.

**Funding Policy.** In the Local Governmental Noncontributory Retirement System, Farr West City is required to contribute for the period of July 2004 - June 2005, 11.09% of their annual covered salary. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

Farr West City contributions to the Local Governmental Noncontributory Retirement System for 2005, 2004 and 2003 were \$18,871, \$15,958, and \$12,951, respectively. The contributions were equal to the required contributions for each year.

**NOTE 10 - POST-EMPLOYMENT BENEFITS**

Farr West City provides no post-employment benefits for employees, other than COBRA requirements.

FARR WEST CITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2005

**NOTE 11 - DEFERRED REVENUE**

Deferred revenues are resource inflows that do not yet meet the criteria for revenue recognition. The City follows GASB Statement #33 which reports property taxes currently receivable to be used in the following fiscal year as deferred revenue.

**NOTE 12 - INTEREST EXPENSE**

The Proprietary Fund incurred \$25,775 in interest expense of which \$25,775 was charged to expense and \$0 was capitalized.

**NOTE 13 - INTER-FUND TRANSFERS**

During the year ended June 30, 2005, budgeted interfund operating transfers were as follows:

Transfer from General Fund to Capital Projects Fund	\$ 383,530
Transfer to Capital Projects from General Fund	(383,530)
	<u>\$ -</u>

**NOTE 14 - INTERFUND LOAN**

The City Council authorized an interfund loan from the Sewer Fund to the Capital Projects Fund. The amount loaned was \$985,000. The money was used in the construction of the new recreation center. The intent is to repay the loan over a period not to exceed 20 years and with interest to be charged at a rate equal to the monthly Public Treasurers Investment Fund rate. It is shown in the financial statements as "Due From Other Funds" in the Sewer Fund and "Due To Other Funds" in the Capital Projects Fund.

The proper reporting of this issuance of a long term interfund loan as a balance sheet item "Due to Other Funds" rather than in the operating statement "Other Financing Sources" created a deficit fund balance \$(808,005) in the Capital Projects Fund which will be reduced each year as the loan is repaid.

**NOTE 15 - PROPERTY TAX CALENDAR**

Lien date	Jan. 1
Taxing entity notifies the county of date, time, and place of public hearing	Mar. 1
Budget officer of the entity prepares and files with the city council a tentative budget for the next fiscal year	1st scheduled council meeting in May
County auditor sends valuation certified tax rate and levy worksheets to each taxing entity	Jun. 8
Taxing entity must adopt a proposed tax rate, certify the rate and levy, and submit to the county auditor	Before Jun. 22
Taxing entity adopts a final tax rate if there is no increase in certified tax rate	Jun. 22
Taxing entity adopts final budget if there is no increase in certified tax rate	Jun. 22
Copy of the budget is submitted to state auditor within 30 days of adoption	
Payment and delinquency date	Nov. 30

FARR WEST CITY  
REQUIRED SUPPLEMENTAL  
INFORMATION.

JUNE 30, 2005



FARR WEST CITY  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES TO FUND BALANCES -  
BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Taxes:				
Property taxes	\$ 54,000	\$ 44,463	\$ 49,460	\$ 4,997
Fee in lieu	7,000	7,000	8,823	1,823
Redemptions	2,000	2,000	1,537	(463)
Sales tax	450,000	560,000	564,590	4,590
Franchise tax	6,000	6,000	7,059	1,059
Total taxes	<u>519,000</u>	<u>619,463</u>	<u>631,469</u>	<u>12,006</u>
Licenses and permits:				
Business licenses & permits	9,500	9,500	11,560	2,060
Building permits	190,000	220,000	222,202	2,202
Plan check fees	90,000	120,000	104,193	(15,807)
Total licenses and permits	<u>289,500</u>	<u>349,500</u>	<u>337,955</u>	<u>(11,545)</u>
Intergovernmental:				
Class "C" roads	160,000	160,000	120,812	(39,188)
State liquor allotment	3,000	3,000	2,630	(370)
State grants	-	2,000	2,000	-
Total intergovernmental	<u>163,000</u>	<u>165,000</u>	<u>125,442</u>	<u>(39,558)</u>
Charges for services:				
Sewer administration	24,000	24,000	24,000	-
Planning & zoning fees	2,500	2,500	1,530	(970)
Park fees	2,500	2,500	1,240	(1,260)
Senior center rental	-	3,000	1,455	(1,545)
Refuse collection charges	86,000	143,500	143,433	(67)
Garbage container sales	14,000	14,000	13,258	(742)
Recreation fees	6,000	6,000	4,040	(1,960)
Street light charges	800	800	828	28
Recreation center fees	-	1,000	-	(1,000)
Total charges for services	<u>135,800</u>	<u>197,300</u>	<u>189,784</u>	<u>(7,516)</u>
Fines and forfeitures	<u>75,000</u>	<u>110,200</u>	<u>105,854</u>	<u>(4,346)</u>

FARR WEST CITY  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL (CONTINUED)  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>			<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Favorable</u> <u>(Unfavorable)</u>
<u>Revenues (Continued)</u>				
Other revenues:				
Park impact fees	\$ 90,000	\$ 90,000	\$ 76,900	\$ (13,100)
Storm sewer impact fees	100,000	250,000	230,873	(19,127)
Interest earnings	10,000	10,000	15,229	5,229
Contributions	-	201,000	201,360	360
Returned check fee	-	-	220	220
Miscellaneous	2,000	2,000	3,605	1,605
Total other revenues	202,000	553,000	528,187	(24,813)
Total revenues	1,384,300	1,994,463	1,918,691	(75,772)
<u>Expenditures</u>				
General government				
Administrative & Legislative:				
Salaries and benefits	123,600	129,200	127,091	2,109
Materials, supplies and services	70,500	70,500	70,188	312
	194,100	199,700	197,279	2,421
Judicial:				
Salaries and benefits	38,600	44,200	41,914	2,286
Materials, supplies and services	9,000	11,500	7,786	3,714
	47,600	55,700	49,700	6,000
General governmental buildings:				
Salaries and benefits	123,100	123,100	122,829	271
Materials, supplies and services	74,000	79,000	72,359	6,641
Capital outlay	155,000	466,000	341,811	124,189
	352,100	668,100	536,999	131,101
Total general government	593,800	923,500	783,978	139,522

FARR WEST CITY  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL (CONTINUED)  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>			<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Favorable</u> <u>(Unfavorable)</u>
<u>Expenditures - Continued</u>				
Public safety:				
Salaries and benefits	\$ 6,100	\$ 6,100	\$ 5,517	\$ 583
Law enforcement	216,000	216,000	216,482	(482)
Animal control	14,000	14,000	12,765	1,235
Materials, supplies and service	6,000	8,000	2,258	5,742
Total public safety	242,100	244,100	237,022	7,078
Highways & public improvements:				
Class "C" roads	160,000	200,000	204,024	(4,024)
Materials, supplies and service	24,000	28,000	20,163	7,837
Total highways & public improvements	184,000	228,000	224,187	3,813
Parks & recreation:				
Salaries and benefits	6,400	6,400	7,537	(1,137)
Materials, supplies and services	13,000	36,000	19,102	16,898
Total parks and recreation	19,400	42,400	26,639	15,761
Sanitation:				
County landfill	64,000	72,000	72,851	(851)
Refuse collection charges	52,000	52,000	49,447	2,553
Garbage can purchases	14,000	14,000	11,275	2,725
Total sanitation	130,000	138,000	133,573	4,427
Total expenditures	1,169,300	1,576,000	1,405,399	170,601
Excess (deficiency) of revenues over expenditures	215,000	418,463	513,292	94,829

FARR WEST CITY  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL (CONTINUED)  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>			<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Favorable</u> <u>(Unfavorable)</u>
Other financing sources (uses):				
Operating transfers (out)	<u>\$ (255,000)</u>	<u>\$ (458,463)</u>	<u>\$ (383,530)</u>	<u>\$ 74,933</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other uses	<u>(40,000)</u>	<u>(40,000)</u>	<u>129,762</u>	<u>169,762</u>
Fund balance - beginning of year	<u>600,871</u>	<u>600,871</u>	<u>600,871</u>	<u>-</u>
Fund balance - end of year	<u><u>\$ 560,871</u></u>	<u><u>\$ 560,871</u></u>	<u><u>\$ 730,633</u></u>	<u><u>\$ 169,762</u></u>

**FARR WEST CITY**  
**AUDITOR'S REPORTS AND**  
**AUDITOR'S MANAGEMENT LETTER**

**JUNE 30, 2005**

# ***Davis, Chase & Associates, P.C.***

***Certified Public Accountants***

*Steven J. Davis, CPA, CFP®, PFS*

*Tarina Chase, CPA*

*Ann Singleton, CPA*

## **INDEPENDANT AUDITOR'S REPORT ON STATE LEGAL COMPLIANCE**

To the Honorable Mayor and City Council  
Farr West City  
Farr West, Utah

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Farr West City, Utah, for the year ended June 30, 2005, and have issued our report thereon dated November 23, 2005. As part of our audit, we have audited Farr West City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2005. The City received the following major State assistance programs from the State of Utah:

"C" Road Funds (Department of Transportation)  
Liquor Law Enforcement (State Tax Commission)

The City also received the following nonmajor grants which are not required to be audited for specific compliance requirements: (However, these programs were subject to testwork as part of the audit of the City's financial statements.)

### **State and Local Assistance (SLA) Program**

Our audit also included testwork on the City's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide including:

Public Debt	Truth in Taxation and Property Tax Limitations
Cash Management	Liquor Law Enforcement
Purchasing Requirements	Uniform Building Code Standards
Budgetary Compliance	Impact Fees
"B" & "C" Road Funds	Justice Courts Compliance
Other Compliance Issues	

The management of Farr West City is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

INDEPENDENT AUDITOR'S REPORT ON STATE LEGAL COMPLIANCE  
PAGE 2

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying schedule of findings and questioned costs. We considered these instances of noncompliance in forming an opinion on compliance, which is expressed in the following paragraph.

In our opinion, Farr West City, Utah, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2005.

*Davis, Chase & Associates*

November 23, 2005

FARR WEST CITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS-STATE LEGAL COMPLIANCE  
YEAR ENDED JUNE 30, 2005

1. DEFICIT IN CAPITAL PROJECTS FUND

Appropriations in the final budgets may not be made for any fund in excess of expendable revenues for the budget year. The Capital Projects Fund has a fund balance deficit as of June 30, 2005.

This was a result of an interfund loan from the Sewer Fund to the Capital Projects Fund for purpose of providing funds for recreation center construction. A loan from another fund of the City is not revenue to the recipient fund but rather is recorded as a liability to that fund. Therefore a deficit was created as expenditures were made which exceeded revenues.

We recommend the City take steps to reduce this deficit as soon as possible.

**Management Response**

The City authorized this interfund loan with prescribed interest rate and repayment terms. The intent is for the General Fund to budget transfers to the Capital Projects Fund each year to reduce this deficit.

2. QUARTERLY BUILDING PERMIT REPORTS

The quarterly building permit reports submitted to the Division of Occupational and Professional Licensing were not completely reconciled with the general ledger amounts received. This resulted in some building permits not being reported and the surcharge not being remitted to the State of Utah.

We recommend the quarterly reports be reconciled with the general ledger amounts received to insure an accurate reporting.

**Management Response**

The City will reconcile these reports on a quarterly basis with the general ledger and will make an adjustment on the next quarterly report to correct the prior periods.

3. TREASURER'S BOND

The current fidelity bond on the City Treasurer does not provide bonding for the proper amount as provided in the Utah Code Section 51-7-15. Every public treasurer shall be bonded in the amount shown in a table provided under the Utah Code.

We recommend the fidelity bond on the City Treasurer be increased to the proper amount.

**Management Response**

The City is aware of the required increase in the treasurer's bond based on budgeted gross revenue. The City will increase the treasurer's bond accordingly.



# ***Davis, Chase & Associates, P.C.***

*Certified Public Accountants*

*Steven J. Davis, CPA, CFP®, PFS*

*Tarina Chase, CPA*

*Ann Singleton, CPA*

## **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and City Council  
Farr West City  
Farr West, Utah

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of Farr West City, Utah, as of and for the year ended June 30, 2005, and have issued our report thereon dated November 23, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### **Compliance**

As part of obtaining reasonable assurance about whether Farr West City, Utah's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that we have reported to the management of Farr West City, Utah, in a separate letter dated November 23, 2005.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Farr West City, Utah's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE

Page 2

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over the financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting that we have reported to the management of Farr West City, Utah, in a separate letter dated November 23, 2005.

This report is intended for the information of the audit committee, legislative body, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Davis, Chase + Associates*

November 23, 2005

# ***Davis, Chase & Associates, P.C.***

***Certified Public Accountants***

***Steven J. Davis, CPA, CFP®, PFS***

***Tarina Chase, CPA***

***Ann Singleton, CPA***

To the Honorable Mayor and City Council  
Farr West City  
Farr West, Utah

We have recently completed our audit examination for the year ended June 30, 2005. During the course of our audit, we observed a few items we feel require your consideration. They are as follows:

1. **DEFICIT IN CAPITAL PROJECTS FUND**

Appropriations in the final budgets may not be made for any fund in excess of expendable revenues for the budget year. The Capital Projects Fund has a fund balance deficit as of June 30, 2005.

This was a result of an interfund loan from the Sewer Fund to the Capital Projects Fund for purpose of providing funds for recreation center construction. A loan from another fund of the City is not revenue to the recipient fund but rather is recorded as a liability to that fund. Therefore a deficit was created as expenditures were made which exceeded revenues.

We recommend the City take steps to reduce this deficit as soon as possible.

**Management Response**

The City authorized this interfund loan with prescribed interest rate and repayment terms. The intent is for the General Fund to budget transfers to the Capital Projects Fund each year to reduce this deficit.

2. **QUARTERLY BUILDING PERMIT REPORTS**

The quarterly building permit reports submitted to the Division of Occupational and Professional Licensing were not completely reconciled with the general ledger amounts received. This resulted in some building permits not being reported and the surcharge not being remitted to the State of Utah.

We recommend the quarterly reports be reconciled with the general ledger amounts received to insure an accurate reporting.

**Management Response**

The City will reconcile these reports on a quarterly basis with the general ledger and will make an adjustment on the next quarterly report to correct the prior periods.

3. TREASURER'S BOND

The current fidelity bond on the City Treasurer does not provide bonding for the proper amount as provided in the Utah Code Section 51-7-15. Every public treasurer shall be bonded in the amount shown in a table provided under the Utah Code.

We recommend the fidelity bond on the City Treasurer be increased to the proper amount.

**Management Response**

The City is aware of the required increase in the treasurer's bond based on budgeted gross revenue. The City will increase the treasurer's bond accordingly.

We appreciate the cooperation and assistance we have received from City personnel during the audit.

*Davis, Chase & Associates*

November 23, 2005

FARR WEST CITY  
STATUS OF FISCAL YEAR 2004 FINDINGS  
AND RECOMMENDATIONS  
YEAR ENDED JUNE 30, 2005

1. EXCESS FUND BALANCE

The fund balance in the general fund is in excess of the limitations set by state law. Section 10-6-116 (2) of the Utah Code Annotated, 1953, as amended sets forth the amount of the fund balance that may be accumulated in the general fund as follows: The accumulation of a fund balance in the general fund shall not exceed 18% of the total estimated revenue of the General Fund.

We recommend the excess over the maximum allowed be recognized in the budget of the current year or in the budget for the succeeding year.

**Management Response**

The City is aware of the excess and will either incorporate the excess in the budget when the budget is reopened and amended or in the following year. The City currently does not levy property taxes.

Status: Implemented.